

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Land Division  
Honolulu, Hawaii 96813

November 14, 2008

Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii 96813

PSF: 08HD-186

HAWAII

Approval in Principle of the Issuance of a Direct Lease to Sunfuels Hawaii LLC  
for Commercial Forestry Purposes, North Hilo, Hamakua, Hawaii, TMK: Various

APPLICANT:

Sunfuels Hawaii LLC, a Hawaii limited liability corporation whose business address is  
65-1230 Mamalahoa Highway, Suite E23, Kamuela, Hawaii 96743.

LEGAL REFERENCE:

Section 171-95, Hawaii Revised Statutes, as amended.

LOCATION:

Portion of the Government lands from Piihonua, South Hilo to Paauhau, Hamakua for a  
commercial forestry operation.

AREA:

Up to 37,263.87 acres. The attached Exhibit A is a list of the Applicant's requested  
acreage by TMK parcels.

ZONING:

State Land Use District:	Agricultural/Conservation
County of Hawaii CZO:	Agricultural/Conservation

TRUST LAND STATUS:

Section 5(b) lands (ceded) of the Hawaii Admission Act.

DHHL 30% entitlement lands pursuant to the State constitution: Determination will be  
dependent on final total acreage available for lease.

CURRENT USE STATUS:

General Lease No. S-4472 issued to Ernest Deluz for pasture purposes.

General Lease No. S-4473 issued to Ernest Deluz for pasture purposes.

General Lease No. S-4475 issued to KK Ranch for pasture purposes.

General Lease No. S-4476 issued to Fred Nobriga for pasture purposes.

General Lease No. S-4477 issued to SC Ranch for pasture purposes.

General Lease No. S-4478 issued to Boteilho Enterprises for pasture purposes.

General Lease No. S-5586 issued to Island Dairy for dairying and allies purposes.

General Lease No. S-5811 issued to Jackson and Mandy Thong for agricultural purposes.

Revocable Permit No. 7362 issued to Norman Medeiros for pasture purposes.

CHARACTER OF USE:

Cultivate, manage and harvest forest products as biomass feedstock for the commercial production of diesel fuel.

LEASE TERM:

Fifty (50) years.

COMMENCEMENT DATE:

The first day of the month to be determined by the Chairperson.

ANNUAL RENT:

Fair market annual rent.

METHOD OF PAYMENT:

Semi-annual payments, in advance.

RENTAL REOPENINGS:

On the day after the 10th, 20th, 30th and 40th year of the term to be determined by staff or independent appraisal.

CHAPTER 343 – ENVIRONMENTAL ASSESSMENT:

The Applicant's commercial forestry operation is an allowable use within the agricultural district.

In accordance with the "Division of land Management's Environmental Impact Statement Exemption List," approved by the Environmental Council and dated April 28, 1986, the

Applicant's commercial forestry operation is exempt from the preparation of an environmental assessment pursuant to Exemption Class No. 1 that exempts "Operations, repairs, or maintenance of existing structures, facilities, equipment or topological features involving negligible, or no expansion or change of use beyond that previously existing."

DCCA VERIFICATION:

Place of business registration confirmed:	YES
Registered business name confirmed:	YES
Applicant in good standing confirmed:	YES

APPLICANT REQUIREMENTS:

Applicant shall be required to:

1. Secure agreements with the State's tenants for the use of all or portions of the demised lands whether by early termination of the leases or revocable permits, assignments or subleasing if allowable, or otherwise.
2. Conduct its due diligence and obtain necessary entitlements and permits.
3. Secure project financing commitments.
4. Provide survey maps and descriptions according to State DAGS standards at Applicant's own cost.

REMARKS:

Sunfuels Hawaii LLC (Sunfuels), a company formed this year is developing a plan to establish a biomass to liquid plant to produce diesel fuel on the island of Hawaii. The production plant would utilize Carbo-V gasification technology licensed by Choren Industries and Shell Middle Distillate Synthesis technology to produce a clean, renewable diesel fuel for distribution and sale on the island of Hawaii. Biomass for feedstock would come from trees and other non-food crops through long-term supply contracts.

The production facility would be located on privately owned land while the commercial forestry operation to grow the biomass would include both private and public lands on the island of Hawaii.

Sunfuels, earlier this year, began to evaluate the biomass potential of lands in Kau, Hamakua, North Hilo and Waimea by retaining Forest Solutions, Inc., a local forest management company with more than 10 years experience. Many of the lands evaluated offer medium to high biomass production potential. Sunfuels is also exploring cooperative biomass ventures on grazing lands currently under active leases issued by the Department.

The attached Exhibit A, prepared by Sunfuels, lists the State lands of interest by Sunfuels for its commercial forestry operation. The list includes 3,830.3 acres previously requested by Hamakua Biomass Holdings, LLC (Hamakua), for commercial forestry purposes at the Boards October 10, 2008 meeting, under agenda item D-3. Accordingly, Sunfuels' interest in the 3,830.3

acres for biomass cultivation would be considered should Hamakua decide not to lease any or all of the 3,830.3 acres.

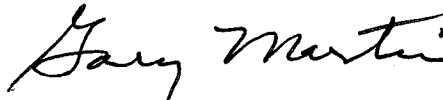
The 2002 legislature passed Act 102, which amended Section 171-95 Hawaii Revised Statutes, as amended, by including commercial renewable energy producers as being eligible for directly issued leases by the Board.

Sunfuels has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

RECOMMENDATION:

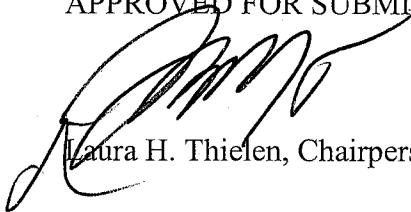
That the Board, subject to the Applicant fulfilling all of the Applicant requirements listed above, approve in principle the issuance of a direct lease to Sunfuels Hawaii LLC covering up to 37,263.87 acres of State lands for a commercial forestry operation with the understanding that the approval in principle shall not be deemed to be an approval of a lease as staff shall return to the Board at a later date for approval of the lease disclosing the negotiated terms and conditions.


Respectfully submitted,



Gary Martin  
Land Agent

APPROVED FOR SUBMITTAL:



Laura H. Thielen, Chairperson 

TMK	Tax acres	GIS acres
343010002	7,932.36	7,997.60
343010008	7,780.00	7,686.37
331004001	505.40	510.87
331004002	38.10	34.18
341005001 *	447.24	468.90
341006007	3,110.00	3,059.78
339002007	933.96	869.34
339002008	602.20	590.75
342007002 *	1,061.69	1,059.55
342008002 *	1,902.00	1,884.65
344014002	6,065.00	6,098.72
344014011	15.00	18.54
341001006 *	86.38	96.62
341004033 *	333.68	326.64
339001001	186.91	189.18
339001002	128.41	125.46
339001007	107.28	125.90
339001013	33.27	44.01
326018001	5,995.00	5,934.61
Total	37,263.87	37,121.66

\* Subject to direct lease to Hamakua Biomass Holdings, LLC

**EXHIBIT " A "**